

**The Effect of Leadership Styles on Employee Competencies Development:
Evidence from a Leading State-Owned Bank Operating in Central Province,
Sri Lanka**

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INTRODUCTION

In the modern era dominated by modernization, commercialization and diverse socio-economic changes the financial institutions especially Banks have a vital role to play to meet the demands and the challenges of people. Thus, this study concerns on the effect of the leadership style of Bank Branch Manager on competencies of subordinates and competencies development in banking organizations. Leadership as it is and the Transformational Leadership in particular, has been found to be a key variable affecting performance in organizations by several contemporary researchers.

There is a scarcity of applied research on transformational leadership and employee competencies development variables in the banking business environment in Sri Lankan context. This study addresses this gap and is focused to identify and study the level of specific six competencies among junior managers and middle managers who are working under the supervision of branch manager and the effect of branch head on such competencies development in the banking business environment.

AIM OF THE STUDY

The purpose of this study is to discover the effect of Transformational, Transactional and Laissez-faire leadership styles on Employee Competencies Development. Research problem of the study is what effects do transformational, transactional and laissez-faire leadership have on employee competencies development? The overall objective of the study is to discover the effect of Transformational, Transactional and Laissez-Faire Leadership styles on employee competencies development in group level and in an individual level.

METHODS

This is a mixed methods study and the population of interest is Branch network of Bank of Ceylon (BOC) in commercial banking industry as it is the largest financial institution in Sri Lanka with over LKR two trillion in assets and an annual income of over LKR 100 billion with local and overseas branches.

Sampling. The sample frame for this study consists of 164 employees as subordinates to the branch managers, 38 branch managers as leaders, and five area managers and an Assistant General Manager as supervisors to all branch managers. Accordingly, the total number of participants (sample) of the study was 207.

Instrumentation. To test the full range of leadership behaviors validated seven-item Multi Factor Leadership Questionnaire (MLQ) was adapted to measure leadership styles using 21 items.

Procedure. One round of pre-testing was conducted on the survey instrument to ensure item specificity, representativeness, readability, functionality, and face validity. Survey study research design was used to collect data from BOC fully pledged branches located within the Central province Region. The survey was administered using questionnaire followed by an in-depth interview conducted with all participants.

Data Analysis-Pearson product moment correlation coefficient was used to examine the relationship between the leadership styles and the Employee Competencies Development of BOC. A standard multiple regression was performed with Employee Competencies as the dependent variable, and scores on the MLQ, for leadership styles as independent variables. The statistical package for the Social sciences (IBM SPSS statistics 21.0) computer program for Windows was used to conduct the statistical analysis of all data in this study. Further, qualitative data were analysed using thematic analysis.

DISCUSSION

With the use of $p \leq .001$ criterion for Mahalanobis distance, no multivariate outliers were found in the sample ($N = 207$). No cases had missing data and no suppressor variable were found. A residual analysis was conducted to check assumptions. To check the scatterplot of the standardized residuals and normal probability plot, assumptions about residuals were met.

The Cronbach's alpha coefficient of the MLQ ranged from .79 to .90. The Cronbach's alpha coefficient of the Employee Competencies questionnaire was .89 and it was .92 for

Opportunities for Employee Development. For the total scale the Cronbach's alpha was .92. George and Mallery (2003) provide the following rules of thumb :>.9-"Excellent",>.8 – "Good". Thus, with high Cronbach's alpha coefficients prove higher level of internal consistency of the items in the scale of this study.

The highest mean value of the transformational leadership components is Inspirational Motivation which was 3.59. Accordingly, the research evidenced that bank branches led by transformational type of leader, who has higher level of inspirational motivation characteristics. The mean values are similar to those in earlier studies using MLQ-1 and MLQ-5 (Bass 1985; Bass and Avolio 1991). Among the transactional leadership characteristics Contingent Reward (reinforcing leader) has the mean score of 3.47 with the Standard Deviation of .38, also the Managing by exception (MBE) has mean value of 3.24 with SD of .35, indicating that branch managers of the bank display both transactional and transformational leadership styles. The mean values for both transformational and transactional type of branch managers derived for this research study supported with the argument made by Bass saying that effective leaders exhibit varying levels of both transformational and transactional leadership. The mean value for laissez-faire leadership was 2.01 which represent the label assigned as "never" to "Rarely". The Laissez-faire type of leadership very rarely found, within the branch network as the provincial heads/area managers of the bank cannot afford to be complacent due to hyper-competitive, ever changing banking business environment and the pressure from top management of the bank. The highest mean value among the six employee competencies is communication skills of subordinates which is 3.56 with the Standard deviation of .41. Staff members of the branch revealed that manager's contribution towards strengthen of clear communication is very high among active leaders. Coaching is the most significant predictor variable for employee competencies development variable mean value is 3.77 and other variables also appeared mean value above 3.34, which further confirmed that almost all the managers of the branch network are in a position to create necessary climate for employee competencies development.

Results of Pearson correlation and multiple regression method revealed that except one i.e. transactional leadership has no significant positive relationship with the employee competencies development in group level, all other hypotheses were supported. Transformational leadership style was the most predictor variable; it explained 56.7% variance of employee competencies development as per the group level analysis and 26.4% in an individual level analysis. It was only 5% for transactional leadership in a group setting and 21.3% in an individual level. The laissez-faire leadership was observed to be a negative effect of 44.2% as per the group level

analysis and -14% in an individual level, which hinders the employee competencies and their development.

One interpretation of this result is that the functional operations of a bank are highly specialized and standardized at the processing level. The environment is controlled and tasks are structured, such that, there is little scope for transactional leadership. Individual performance, is for the most part, determined by the flow of work, (e.g., for bank tellers) more than the immediate demands and expectations of their managers. Therefore, subordinates to the branch managers of the bank are very much concern and positive with the leader who create strong emotional bond, instead of leaders who just giving target and waiting for results. Among three different leadership styles, transformational leadership is the best predictor of employee competencies. This study supports the position of Gardner and Stough (2002) the transformational leadership is more strongly correlated than transactional leadership with higher productivity and performance (Bass et al.2003).

The selected Leadership styles for the study accounted for 67.7% of the variance in employee competencies development in a group level, and 34.1% of the variance in employee competencies development in an individual level analysis. It would be reasonable to expect that for banks in Sri Lanka there exists substitutes for the qualities of transactional leadership.

Target members of the sample are very busy and critical with small to larger decision making relating to customer service. Therefore, though, the steps were taken maximum to explain and pass in-depth knowledge with regard to research theme, it cannot be assumed that all participant paid 100% attention to the questionnaire when dealing with them. Other potential limitations to the study are the sample size and achieving an acceptable response rate.

IMPLICATIONS

This study provides additional evidence to support those leaders who display visionary, inspirational, and goal-oriented behaviors positively effect on subordinates' outcomes. Transactional leader demonstrates very less impact on subordinates' competencies. The laissez-faire leaders are burden at all to the organizations particularly in banking industry, as the study shows that such leaders have strong negative impact on employee competencies. To attract, develop, retain and reward suitable talent at all levels, leaders at banks should be highly focus on leadership development towards transformational characteristics.

There seems to be no substitute provided for transformational qualities. Executives up and down the corporate hierarchy as well as business owners and all types of professionals are increasingly recognizing the need to refine and expand their knowledge, perspectives and skills. Leader managers of any business unit should be vigilant about ever changing market environment and stimulate subordinates with transformational leadership qualities in order to effectively compete and succeed in today's hyper-competitive banking industry. It is worthy of scholarly attention is the assessment of effects that experience, level of skills, career aspirations have on perceptions of leadership. In addition, the competency relationship has to be further explored, i.e. Knowledge Management.

KEY WORDS

Transformational, Transactional, Laissez-faire leadership styles, Employee competencies development

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